

DANSVILLE SCHOOLS
Dansville, Michigan

FINANCIAL STATEMENTS

June 30, 2006

Dansville Schools
Dansville, Michigan
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June 30, 2006

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Dansville Schools

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Dansville Schools
Dansville, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Dansville Schools as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Dansville Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Dansville Schools as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2006 on our consideration of Dansville Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information as noted in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Dansville Schools' basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 22, 2006

This section of Dansville Schools' annual report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2006. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Dansville Schools' management's discussion and analysis of the financial results for the fiscal year ended June 30, 2006.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Dansville Schools financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and longer-term view of the finances. The *Fund Financial Statements* provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund individually, and the Special Revenue, Debt Service, and Capital Project Funds collectively as nonmajor governmental funds. The remaining statement, the statement of fiduciary net assets, statement of changes in fiduciary net assets, present financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

District-Wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which appear first in the basic financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. These statements are prepared to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the Statement of Net Assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the Statement of Activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The Statement of Net Assets and Statement of Activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, athletics, and food service. Property taxes, unrestricted State Aid (foundation allowance revenue), State and Federal grants, and other local dollars finance most of these activities.

The district-wide financial statements are full accrual basis statements. They report all the District's assets and liabilities, both short and long-term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Service Funds solely for the payment of long-term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the District are reported in the Statement of Net Assets of the District-wide financial statements.

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2006**

Fund Financial Statements

The fund level financial statements are reported on the modified accrual basis. Only those assets that are "measurable" and "available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Service Funds, the Special Revenue (School Service) Funds which are comprised of: Food Service and Athletics, and Capital Project Funds.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No capital assets are reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

Summary of Net Assets:

The following summarizes the net assets as of June 30, 2006.

Condensed Statement of Net Assets
as of June 30, 2006 and 2005

	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
Assets		
Current Assets	\$ 2,393,560	\$ 2,691,996
Capital Assets	<u>5,674,575</u>	<u>5,182,475</u>
Total Assets	8,068,135	7,874,471
Liabilities		
Current Liabilities	2,054,900	1,987,760
Noncurrent Liabilities	<u>3,835,081</u>	<u>4,117,390</u>
Total Liabilities	5,889,981	6,105,150
Net Assets		
Invested in capital assets, net of related debt	1,856,331	1,308,055
Restricted	132,944	348,888
Unrestricted	<u>188,879</u>	<u>112,378</u>
Total Net Assets	<u>\$ 2,178,154</u>	<u>\$ 1,769,321</u>

Analysis of Financial Position:

As detailed above, the district shows a positive total net asset value of \$2,178,154 for the fiscal year ended June 30, 2006. This statement has been affected by the following factors:

- Debt (\$290,594) was retired by the District in FY 2006 through payment of principal.
- Capital asset historical values increased by \$843,695 due to the District investment in capital assets.
- The District was able to maintain the amount (\$1 million), which was needed as a State Aid Anticipation Note to finance short-term cash flow issues. This was the same amount borrowed in the last three (3) fiscal years.

Results of Operations:

For the fiscal year ended June 30, 2006 and 2005 the district-wide results of operations were:

Condensed Statement of Activities
Year Ended June 30, 2006 and 2005

	Governmental Activities 2006	Governmental Activities 2005
Revenues:		
Program Revenues		
Charges for Service	\$ 261,990	\$ 268,253
Operating Grants	510,031	408,255
General Revenues		
Property Taxes	917,566	855,546
State School Aid - unrestricted	6,068,571	5,819,177
Investment Earnings	30,889	18,014
Special Education county allocation	255,043	242,227
Other	27,855	58,786
Total Revenues	8,071,945	7,670,258
Functions/Program Expenses:		
Instruction	4,248,059	4,178,592
Supporting services	2,361,871	2,197,704
Building improvement services	-	20,960
Food service	307,058	289,028
Athletics	251,907	242,923
Interest on long-term debt	142,622	180,977
Unallocated depreciation	351,595	344,669
Total Expenses	7,663,112	7,454,853
Increase in Net Assets	\$ 408,833	\$ 215,405

Analysis of Results of Operations:

During fiscal year ended June 30, 2006, the District's net assets increased by \$408,833. Several factors, which helped cause the increase, are discussed in the following sections.

A. Governmental Fund Operating Results

The District's expenditures from governmental fund operations exceeded revenues by \$392,967 for the fiscal year ended June 30, 2006. Further discussion of the District's operating results is available in the section entitled "Results of 2005-2006 Operations" located on the following pages.

B. Depreciation Expense

The cost of capital assets is allocated over the useful lives of the assets as depreciation expense. During 2005-2006, District assets depreciated in the amount of \$351,595, but the District capitalized \$843,695 worth of capital outlay in the current year. The net effect was an addition in the District net assets of \$492,100.

C. Long-Term Debt Activities

The District reduced its long-term debt obligation during 2005-2006 by making principal payments amounting to \$290,594. Additional debt in the form of increased severance pay accrued during the year of \$19,211. As a result of these activities, net district long-term liabilities decreased by \$271,383.

Results of 2005-2006 Operations

During fiscal year ended June 30, 2006, the total fund balances of the District's governmental funds decreased by \$392,967. A few additional significant factors affecting fund balances during the year are discussed below:

A. General Fund Operations

The General Fund is the main fund for the District and includes all the costs related to educating the students of the Dansville Schools such as: salaries and benefits for Teachers, Classroom Paraprofessionals, Administrators, Secretaries, Custodians, Maintenance staff, Librarians, Counselors, Bus Drivers and other miscellaneous positions; teaching supplies, employee training, utilities, building maintenance supplies and other.

The District's expenditures from General Fund operations exceeded revenues by \$111,740 for the fiscal year ended June 30, 2006. The General Fund as of June 30, 2006, has a fund balance of \$496,173.

B. Debt Service Fund Operations

The Debt Service Funds consist of three separate debt funds as follows: General Obligation Bonds, Athletic Facility Debt, and Durant Bonds. The Debt Service Funds are set up to collect taxes and state aid and pay annual debt payments. At June 30, 2006, the Debt Service Funds had \$158,289 in fund equity available for future bond payments. The equity amount of \$158,289, less accrued interest payable of \$37,438 is restricted for debt service on the district-wide financial statements.

The School District levies taxes or transfers funds from the General Fund to make debt payment obligations. If taxes levied and transfers made are not sufficient the School District will borrow funds from the Michigan School Bond Loan Fund. Any funds borrowed from the Michigan School Bond Loan Fund will be paid back toward the end of the bond obligations. For the fiscal year ended June 30, 2006, the School District did not borrow any funds from the Michigan School Bond Loan Fund. The District also had accrued severance pay outstanding at June 30, 2006, of \$324,616.

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2006**

The District made principal payments from the Debt Service Funds on long-term debt obligations that reduced the amount of the District's long-term liabilities. Following is the bonded debt activity for the fiscal year:

	Principal Balance <u>June 30, 2005</u>	Principal Payments	Principal Balance <u>June 30, 2006</u>
1998 Refunding Bonds	\$ 3,580,000	\$ 225,000	\$ 3,355,000
1998 Durant Resolution Bonds	73,838	5,594	68,244
2003 School Improvement Bonds	205,000	40,000	165,000
2005 School Improvement Bonds	<u>250,000</u>	<u>20,000</u>	<u>230,000</u>
Total long-term bond obligations	<u>\$ 4,108,838</u>	<u>\$ 290,594</u>	<u>\$ 3,818,244</u>

C. School Service (Special Revenue) Funds

The Dansville Schools also has school service funds that include the following: Food Service Fund and Athletics Fund.

The Food Service Fund is a fund that reports the food service program. In 2005-2006 the Food Service Fund had revenues of \$301,088 and expenditures of \$307,058. The Food Service Fund was self-supporting in the current year. The Food Service Fund had a fund balance of \$16,273.

The Athletics Fund includes all costs for athletic programs including the cost for coaches, officials, supplies, tournaments, and miscellaneous. In 2005-2006 the Athletics Fund had revenues of \$230,911 and expenditures of \$251,907. The Athletics Fund generated \$44,834 in revenue from gate receipts, passes, fees, donations, and other miscellaneous items. The Athletics Fund must be a balanced budget and the District contributed \$186,077 from the General Fund to balance the fund. The Athletics Fund had a fund balance of \$1,044.

D. Net Investment in Capital Assets

The District's net investment in capital assets increased by \$492,100 during the fiscal year. This can be summarized as follows:

	Balance <u>June 30, 2005</u>	Net Change	Balance <u>June 30, 2006</u>
Capital assets	\$ 16,950,476	\$ 843,695	\$ 17,794,171
Less: accumulated depreciation	<u>(11,768,001)</u>	<u>(351,595)</u>	<u>(12,119,596)</u>
Net investment in capital outlay	<u>\$ 5,182,475</u>	<u>\$ 492,100</u>	<u>\$ 5,674,575</u>

In 1995, Dansville Schools voters approved a \$5.5 million school buildings and site general obligation bond issue. The proceeds from that bond issue were used for constructing new facilities and additions and partial remodeling of existing school facilities, and equipping and re-equipping facilities. In 2003 and 2005 the District issued debt totaling \$525,000 that was used to construct a new athletic facility. At June 30, 2006, those projects were substantially complete.

IMPORTANT ECONOMIC FACTORS**A. State of Michigan Unrestricted Aid (Net State Foundation Grant)**

The State of Michigan aid, unrestricted, is determined with the following variables:

- a. State of Michigan State Aid Act per student foundation allowance.
- b. Student Enrollment - Blended at 75 percent of prior year's fall count and 25 percent of prior year's winter count,
- c. The District's non-homestead property valuation.

B. Per Student Foundation Allowance

Annually, the State of Michigan establishes the per student foundation allowance. The Dansville Schools foundation allowance was \$6,997 per student for the 2005-2006 school year.

C. Student Enrollment

The District's student enrollment for the fall count of 2005-2006 was 938 students. The District's enrollment increased slightly from the prior school year's student count. The following summarizes fall student enrollments in the past three years:

	<u>Student FTE</u>	<u>FTE Change from Prior Year</u>
2005-2006	938	12
2004-2005	926	24
2003-2004	902	12

D. Property Taxes levied for General Operations (General Fund Non-Homestead Taxes)

For the year ended June 30, 2006, the District levied 18 mills of property taxes for operations (General Fund) on Non-Homestead properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or five (5) percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value. The District's non-homestead property tax revenue for the 2005-2006 fiscal year was approximately \$361,562.

E. Debt and Sinking Funds Property Taxes

The District's debt fund levy, which is used to pay the principal and interest on bond obligations, is based on the taxable valuation of all properties: homestead and non-homestead.

For 2005-2006 the District's debt millage levy was 3 mills, which generated revenue of approximately \$409,036.

For 2005-2006 the District's sinking fund millage was .9696 mills, which generated revenue of approximately \$132,247.

GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES

Listed below is an analysis of the original budget and final budget to the final actual.

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2006**

General Fund Revenues and Other Sources - Budgetary Comparison

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variances</u>	
				<u>Actual & Original Budget</u>	<u>Actual & Final Budget</u>
2005-2006	\$6,918,131	\$7,134,767	\$7,165,995	3.6%	.4%
2004-2005	6,413,421	6,858,026	6,822,155	6.4%	(.5)%

General Fund Expenditures and Other Uses - Budgetary Comparison

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variances</u>	
				<u>Actual & Original Budget</u>	<u>Actual & Final Budget</u>
2005-2006	\$7,082,304	\$7,366,323	\$7,277,735	(2.8)%	1.2%
2004-2005	6,542,668	6,989,977	6,768,958	(3.5)%	3.2%

Original vs. Final Budget:

The Uniform Budget Act of the State of Michigan requires that the Board of Education approve the original budget for the upcoming year prior to July 1, the start of the fiscal year.

As a matter of practice, Dansville Schools amends its budget periodically during the school year. The June 2006 budget amendment was the final budget for the fiscal year.

Revenue Change from Original to Final Budget:

		<u>Percent</u>
Total Revenues - Original Budget	\$ 6,918,131	100.0
Total Revenues - Final Budget	<u>7,134,767</u>	<u>103.1</u>
Increase in Budget Revenues	<u>\$ 216,636</u>	<u>3.1</u>

The original budget was amended upward to mainly take into account increased State Aid due to additional students after final counts were taken and additional Federal grant funding.

The District's final actual general fund revenues were more than the final budget by \$31,228, a variance of .4% from the final budget.

Expenditures Change from Original to Final Budget:

The District's budget for expenditures changed as follows during the year:

		<u>Percent</u>
Total Expenditures - Original Budget	\$ 7,082,304	100.0
Total Expenditures - Final Budget	<u>7,366,323</u>	<u>104.0</u>
Increase in Budget Expenditures	<u>\$ 284,019</u>	<u>4.0</u>

The final budget was amended upward mainly to account for additional supporting services costs that were not planned for at the beginning of the fiscal year.

The District's actual expenditures were less than the final budget by \$88,588 or 1.2 percent as certain anticipated costs were not incurred in 05/06.

Additional Economic Factors and Next Year's Budgets and Rates

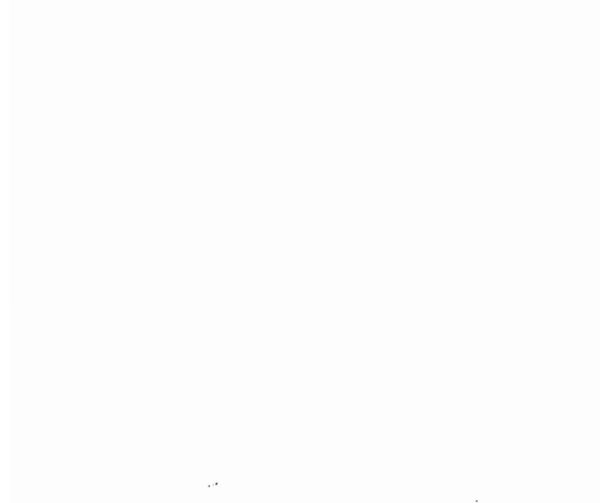
Our elected officials and administration considered many factors when setting the School District's 2006 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2007 fiscal year is 25 percent and 75 percent of the February 2006 and September 2006 student counts, respectively. The 2006 fiscal year budget was adopted in June 2006, based on an estimate of students that will be enrolled in September 2006. Approximately 85 percent to 90 percent of total General Fund revenue is from the foundation allowance. Under State law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2006-2007 school year, we anticipate that the fall student count will be similar to the estimates used in creating the 2007 fiscal year budget. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Since the School District's revenue is heavily dependent on State Funding and the status of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts.

Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Superintendent's Office, Dansville Schools, 1264 Adams Street, P.O. Box 187, Dansville, Michigan 48819.

BASIC FINANCIAL STATEMENTS



Dansville Schools

STATEMENT OF NET ASSETS

June 30, 2006

	Governmental Activities
<hr/>	
ASSETS	
Current assets	
Cash and cash equivalents	\$ 1,215,306
Accounts receivable	13,930
Due from other governmental units	1,152,698
Inventory	11,626
	<hr/>
Total current assets	2,393,560
Noncurrent assets	
Capital assets not being depreciated	130,000
Capital assets, net of accumulated depreciation	<hr/> 5,544,575
Total noncurrent assets	<hr/> 5,674,575
TOTAL ASSETS	8,068,135
 LIABILITIES	
Current liabilities	
Accounts payable	218,821
Accrued payroll	363,840
Other accrued liabilities	81,489
Accrued interest payable	53,326
Due to other governmental units	20,334
Short-term notes payable	1,000,000
Current portion of severance pay	16,231
Current portion of long-term debt	300,859
	<hr/>
Total current liabilities	2,054,900
Noncurrent liabilities	
Accrued interest payable	9,311
Noncurrent portion of severance pay	308,385
Noncurrent portion of long-term debt	3,517,385
	<hr/>
Total noncurrent liabilities	3,835,081
TOTAL LIABILITIES	<hr/> 5,889,981
 NET ASSETS	
Invested in capital assets, net of related debt	1,856,331
Restricted for debt service	120,851
Restricted for sinking fund activities	12,093
Unrestricted	188,879
	<hr/>
TOTAL NET ASSETS	<hr/> \$ 2,178,154 <hr/>

See accompanying notes to financial statements.

Dansville Schools

STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants	Revenues and Changes in Net Assets
				Governmental Activities
Governmental activities				
Instruction	\$ 4,248,059	\$ -	\$ 322,739	\$ (3,925,320)
Supporting services	2,361,871	-	103,386	(2,258,485)
Food Service	307,058	217,161	83,906	(5,991)
Athletics	251,907	44,829	-	(207,078)
Interest and fees on long-term debt	142,622	-	-	(142,622)
Unallocated depreciation	351,595	-	-	(351,595)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 7,663,112	\$ 261,990	\$ 510,031	(6,891,091)
General Revenues				
Property taxes				917,566
State school aid - unrestricted				6,068,571
Investment earnings				30,889
Special education county allocation				255,043
Miscellaneous				27,855
TOTAL GENERAL REVENUES				7,299,924
EXCESS OF REVENUE OVER EXPENSES				408,833
Net assets, beginning of year				1,769,321
Net assets, end of year				\$ 2,178,154

See accompanying notes to financial statements.

Dansville Schools

GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2006

	General	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 1,050,158	\$ 165,148	\$ 1,215,306
Accounts receivable	13,930	-	13,930
Due from other funds	13,421	44,402	57,823
Due from other governmental units	1,143,313	9,385	1,152,698
Inventories	8,723	2,903	11,626
TOTAL ASSETS	\$ 2,229,545	\$ 221,838	\$ 2,451,383
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	\$ 214,813	\$ 4,008	\$ 218,821
Accrued payroll	347,135	16,705	363,840
Accrued interest payable - short term debt	25,199	-	25,199
Other accrued liabilities	81,489	-	81,489
Due to other governmental units	20,334	-	20,334
Due to other funds	44,402	13,421	57,823
Short-term notes payable	1,000,000	-	1,000,000
TOTAL LIABILITIES	1,733,372	34,134	1,767,506
FUND BALANCE			
Reserved for			
Inventories	8,723	2,903	11,626
Debt service	-	158,289	158,289
Unreserved			
Designated for subsequent year's expenditures	147,421	8,731	156,152
Undesignated, reported in:			
General fund	340,029	-	340,029
Special revenue funds	-	5,683	5,683
Capital projects fund	-	12,098	12,098
TOTAL FUND BALANCE	496,173	187,704	683,877
TOTAL LIABILITIES AND FUND BALANCE	\$ 2,229,545	\$ 221,838	\$ 2,451,383

See accompanying notes to financial statements.

Dansville Schools

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET ASSETS

June 30, 2006

Total fund balance - governmental funds \$ 683,877

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 17,794,171	
Accumulated depreciation is	<u>(12,119,596)</u>	
		5,674,575

Some items reported in the statement of activities do not require the use of current financial
resources and therefore are not reported as expenditures in governmental funds. These
activities consist of:

Bonds payable	3,818,244	
Accrued interest payable on long-term debt	37,438	
Severance pay	<u>324,616</u>	
		<u>(4,180,298)</u>

Net assets of governmental activities \$ 2,178,154

See accompanying notes to financial statements.

Dansville Schools

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

Year Ended June 30, 2006

	General	Nonmajor Governmental Funds	Totals Governmental Funds
REVENUES			
Local sources	\$ 424,371	\$ 813,928	\$ 1,238,299
State sources	6,293,152	24,225	6,317,377
Federal sources	184,906	67,797	252,703
OTHER FINANCING SOURCES			
Transfers from other funds	-	263,040	263,040
County special education allocation	255,043	-	255,043
Payments from other districts	8,523	-	8,523
TOTAL REVENUES AND OTHER FINANCING SOURCES	7,165,995	1,168,990	8,334,985
EXPENDITURES			
Current			
Instruction	4,323,953	-	4,323,953
Supporting services	2,690,742	-	2,690,742
Food service	-	307,058	307,058
Athletics	-	251,907	251,907
Capital outlay	-	419,719	419,719
Debt service	-	471,533	471,533
OTHER FINANCING USES			
Transfers to other funds	263,040	-	263,040
TOTAL EXPENDITURES AND OTHER FINANCING USES	7,277,735	1,450,217	8,727,952
EXCESS OF REVENUES AND OTHER FINANCING SOURCES (UNDER) EXPENDITURES AND OTHER FINANCING USES	(111,740)	(281,227)	(392,967)
Fund balances, beginning of year	607,913	468,931	1,076,844
Fund balances, end of year	\$ 496,173	\$ 187,704	\$ 683,877

See accompanying notes to financial statements.

Dansville Schools

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

Net change in fund balances - total governmental funds \$ (392,967)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 843,695	
Depreciation expense	<u>(351,595)</u>	
Excess of capital outlay over depreciation expense		492,100

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Long-term debt principal retirements	290,594
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable	38,317	
(Increase) in compensated absences	<u>(19,211)</u>	
		<u>19,106</u>

Change in net assets of governmental activities \$ 408,833

See accompanying notes to financial statements.

Dansville Schools

Fiduciary Fund

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2006

	Private Purpose Trust Funds	Agency Fund
ASSETS		
Cash	<u>\$ 60,985</u>	<u>\$ 99,152</u>
LIABILITIES		
Due to student groups	\$ -	<u>\$ 99,152</u>
NET ASSETS		
Held in trust for scholarships	<u>60,985</u>	
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 60,985</u>	

See accompanying notes to financial statements.

Dansville Schools

Fiduciary Funds

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year ended June 30, 2006

	Private Purpose Trust Funds
ADDITIONS	
Investment earnings	
Interest	\$ 2,672
DEDUCTIONS	
Other supporting services	<u>9,500</u>
CHANGE IN NET ASSETS	(6,828)
Net assets - beginning of year	<u>67,813</u>
Net assets - end of year	<u><u>\$ 60,985</u></u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Dansville Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity (as amended by GASB Statement No. 39)*; and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of Dansville Schools (primary government). The District has no activities that would be classified as component units.

2. Basis of Presentation

DISTRICT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the district-wide statements) present information for the district as a whole. All non-fiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the district-wide statements). Interfund activity has been eliminated in the preparation of the district-wide financial statements.

The district-wide and fiduciary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

The statement of activities presents the direct functional expenses of the District and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments and shows how governmental functions are either self-financing or supported by the general revenues of the District.

FUND FINANCIAL STATEMENTS

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The District utilizes governmental and fiduciary funds.

The governmental fund financial statements present the District's individual major fund and aggregated nonmajor funds. A separate column is shown for the major fund on the balance sheet and statement of revenues, expenditures, and changes in fund balances. Nonmajor funds are combined and shown in a single column. The fiduciary funds are reported by type.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

The major fund of the District is:

- a. General Fund - The General Fund is used to account for money or other resources provided to the District to support the educational programs and general operations of the District.

3. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The district-wide and fiduciary fund financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the District before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include property taxes, state and federal aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Resources are considered available if they are collected during the current fiscal year or soon enough afterward to be used in payment of current year liabilities - defined as expected to be received within sixty days of year-end. Deferred revenues also arise when the District receives resources before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

4. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all required governmental fund types.

The District does not maintain a formalized encumbrance accounting system. All annual appropriations lapse at fiscal year end.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means for financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amounts appropriated.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Budgets and Budgetary Accounting – continued

- d. The budgets are legally adopted to the functional level; however, they are maintained at the object level for control purposes. Any revisions that alter the total expenditures at the functional level must be approved by the School Board.
- e. Formal budgetary integration is employed as a management control device during the year for all governmental fund types.
- f. The budget, as presented, has been amended in a legally permissible manner. Two (2) supplemental appropriations were made during the year, with the final one on June 12, 2006.

5. Cash and Cash Equivalents

Cash and cash equivalents consist of checking, savings, and money market accounts and pooled investment funds. Cash equivalents are recorded at market value.

6. Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" and "due to other funds" on the governmental funds balance sheet.

7. Inventories

Inventories are stated at cost on a first in/first out basis. The Food Services Fund inventory consists of food and paper goods. Inventory amounts are equally offset by a fund balance reserve in the fund financial statements which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

8. Due From Other Governmental Units

Due from other governmental units consists of various amounts owed to the District for grant programs and State Aid payments. The State of Michigan's funding stream of State Aid payments results in the final two (2) payments for the fiscal year ended June 30, 2006 to be paid in July and August 2006. Of the total amount of \$1,152,698 due from other governmental units, \$1,143,313 consists of State Aid and the remainder, \$9,385 is uncollected tax receivables from local municipalities.

9. Capital Assets

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the district-wide financial statements. Capital assets are those with an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the district-wide financial statements. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and additions	50 years
Equipment and furniture	5 - 20 years
Vehicles	8 years

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

9. Capital Assets - continued

The District has no assets that would be classified as infrastructure assets.

10. Compensated Absences

Based on the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*, the District has recorded all liabilities associated with compensated absences. Accumulated vested severance amounts and nonvested severance amounts that are probable to vest and be paid at termination are considered payable from future resources and are recorded along with the related payroll taxes as a long-term liability in the district-wide financial statements.

11. Short-Term Note Obligations

Short-term debt is recognized as a liability of a governmental fund and is included on the balance sheet of the applicable fund. During the current year the District borrowed funds to meet short-term cash flow borrowing needs. The final payment is due and payable in August 2006, and anticipated State Aid is expected to be sufficient to cover this commitment.

12. Accrued Interest Payable

Accrued interest is presented for the long-term obligations in the district-wide statements in two components: the portion of interest payable that is due within one year is reported as a current liability, the remaining amount that is not due within one year has been reported as a noncurrent liability. The interest payable on the Durant Resolution bonds that were due May 15, 2003 through May 15, 2005 is shown as a noncurrent liability due to the State of Michigan deferring the payments during this time period until May 15, 2009.

13. Long-term Obligations

Long-term debt is recognized as a liability in the district-wide statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

14. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School District property tax revenues are recognized when levied to the extent that they result in current revenue (collected as of year-end). Amounts received subsequent to June 30 are recognized as revenue when collected.

The District levies taxes of \$18 per \$1,000 of taxable valuation on nonhomestead property for general governmental services, \$3 per \$1,000 of taxable valuation on the total applicable taxable valuation of all property within the District for debt service, and \$.9696 per \$1,000 of taxable valuation on the total applicable taxable valuation of all property with the District for capital project sinking fund purposes. The District is also permitted to levy additional amounts for enhancement and/or debt service if voter approval is obtained.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

15. State Foundation Revenue

Beginning with the fiscal year ended June 30, 1995, the State of Michigan adopted a foundation grant approach, which provides for a specific annual amount of revenue per student based on a statewide formula. Prior to the fiscal year ended June 30, 1995 the State utilized a district power equalizing approach. The foundation is funded from State and local sources. Revenues from State sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of State funds to school districts based on information supplied by the districts. For the year ended June 30, 2006, the foundation allowance was based on the average of pupil membership counts taken in September 2005 and February 2005. The average calculation was weighted 75% for the September 2005 count and 25% for the February 2005 count.

The State portion of the foundation is provided primarily by a State education property tax millage of 6 mills and an allocated portion of State sales and other taxes. The local portion of the foundation is funded primarily by nonhomestead property taxes, which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period (currently the fiscal year) and is funded through nine (9) payments made during the fiscal year and two (2) payments made subsequent to year-end. The local revenue is recognized as outlined above under Property Taxes.

16. State Categorical Revenue

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year have been reported as deferred revenue.

17. County Special Education Revenue Allocation

The millage was collected by Ingham Intermediate School District (IISD) and the payments to the District were based on the most recent IISD budget at the time of allocation of excess revenues, after all IISD costs had been reimbursed. The allocation is paid pro rata based upon the K-12 pupil enrollment, including Special Education students enrolled at IISD, of the District compared to the total County wide enrollment. The K-12 enrollment for the District is defined as the blended official count for the State foundation grant. The District continued to receive revenue based on excess funds remaining from a Countywide Special Education millage approved in prior years.

18. Interfund Transactions

Interfund transactions are reported as either loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers on the governmental fund financial statements. Transfers are netted as part of the reconciliation to the district-wide financial statements.

19. Federal Programs

Federal programs are accounted for in the General Fund and specific Special Revenue Funds.

20. Comparative Data

Comparative data for the prior year has not been presented in the basic financial statements since their inclusion would make the statements unduly complex and difficult to read.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE B: CASH AND CASH EQUIVALENTS

In accordance with Michigan Public Act 451 of 1976, Section 1223(1), as amended, the District is authorized to invest its surplus funds in the following types of investments:

1. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
2. Certificates of deposit issued by a State or national bank, savings accounts of a State or Federal savings and loan association, or certificates of deposit or share certificates of a State or Federal credit union organized and authorized to operate in this State.
3. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
4. Securities issued or guaranteed by agencies or instrumentalities of the United States government.
5. United States government or federal agency obligation repurchase agreements.
6. Bankers' acceptances issued by a bank that is a member of the Federal Depository Insurance Corporation.
7. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a School District.
8. Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a School District.

Michigan Public Acts authorize school districts in Michigan to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations. Deposits of the District are at federally insured banks and credit unions in the State of Michigan in the name of the School District.

Federal Deposit Insurance Corporation (FDIC), Federal Savings and Loan Insurance Corporation (FSLIC), and the National Credit Union Administration regulations provide that deposits of governmental units are to be separately insured for savings deposits and demand deposits up to \$100,000 each. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan School Code Section 1223 allows that security in the form of collateral, surety bond, or another form may be taken for the deposits or investments of a school district in a bank, savings and loan association, or credit union.

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2006, the carrying amount of the District's deposits was \$265,874 and the bank balance was \$283,717, of which \$228,319 was covered by federal depository insurance. The balance of \$55,398 was uninsured and uncollateralized. The District had \$1,100 of cash on hand.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

Investments

As of June 30, 2006, the District had the following investments:

<u>Investment type</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Weighted Average Maturity</u>
Insured or registered for which the securities are held by the District's name			
Uncategorized pooled investments			
MLAFP – Cash Management Account	<u>\$ 1,108,469</u>	<u>\$ 1,261,689</u>	< 12 months average

The difference between the carrying amount and market value noted above (\$153,220) is a result of outstanding checks and adjustments that are drawn on the uncategorized pooled investment funds.

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2006, the District's investments in the uncategorized pooled investment (the Michigan Liquid Asset Fund Plus) were rated AAA by Standard and Poor's.

Interest rate risk

The District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Concentration of credit risk

The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities authorized by the Board and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business in accordance with Board approved policy.

The cash and cash equivalents and investments referred to above have been reported in either, the cash and cash equivalents caption in the basic financial statements based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of June 30, 2006:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and cash equivalents	<u>\$ 1,215,306</u>	<u>\$ 160,137</u>	<u>\$ 1,375,443</u>

Due to significantly higher cash flow at certain periods during the year, the amount the District held as cash, cash equivalents and investments increased significantly. As a result, the amount of uninsured and uncollateralized cash, cash equivalents, and investments were substantially higher at these peak periods than at year-end.

Dansville Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	Balance July 1, 2005	Additions/ Reclassifications	Deletions/ Reclassifications	Balance June 30, 2006
Governmental activities				
Capital Assets Not Being Depreciated				
Land	\$ 130,000	\$ -	\$ -	\$ 130,000
Construction in progress	<u>364,227</u>	<u>159,986</u>	<u>524,213</u>	<u>-0-</u>
Subtotal	494,227	159,986	524,213	130,000
Capital Assets Being Depreciated				
Buildings and improvements	14,676,006	1,056,139	-	15,732,145
Equipment	984,641	94,405	-	1,079,046
Vehicles	<u>795,602</u>	<u>57,378</u>	<u>-</u>	<u>852,980</u>
Subtotal	16,456,249	1,207,922	-0-	17,664,171
Accumulated depreciation for:				
Buildings and improvements	(10,642,675)	(231,692)	-	(10,874,367)
Equipment	(531,160)	(77,538)	-	(608,698)
Vehicles	<u>(594,166)</u>	<u>(42,365)</u>	<u>-</u>	<u>(636,531)</u>
Subtotal	<u>(11,768,001)</u>	<u>(351,595)</u>	<u>-0-</u>	<u>(12,119,596)</u>
Net Capital Assets Being Depreciated	<u>4,688,248</u>	<u>856,327</u>	<u>-0-</u>	<u>5,544,575</u>
Total Net Capital Assets	<u>\$ 5,182,475</u>	<u>\$ 1,016,313</u>	<u>\$ 524,213</u>	<u>\$ 5,674,575</u>

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

NOTE D: LONG-TERM DEBT

The following is a summary of changes in long-term debt obligations of the District for the year ended June 30, 2006.

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006	Amounts Due Within One Year
1998 Durant Resolution Bonds	\$ 73,838	\$ -	\$ 5,594	\$ 68,244	\$ 5,859
1998 Refunding Bonds	3,580,000	-	225,000	3,355,000	235,000
2003 School Improvement Bonds	205,000	-	40,000	165,000	40,000
2005 School Improvement Bonds	250,000	-	20,000	230,000	20,000
Severance pay	<u>305,405</u>	<u>19,211</u>	<u>-</u>	<u>324,616</u>	<u>16,231</u>
	<u>\$ 4,414,243</u>	<u>\$ 19,211</u>	<u>\$ 290,594</u>	<u>\$ 4,142,860</u>	<u>\$ 317,090</u>

Dansville Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE D: LONG-TERM DEBT - CONTINUED

Significant details regarding outstanding long-term debt (including current portions) are presented below:

General Obligation Bonds

\$3,995,000 1998 Refunding Bonds dated December 1, 1998, due in annual installments from \$235,000 to \$240,000, with interest ranging from 4.05 to 4.88 percent, payable semi-annually.	\$ 3,355,000
\$275,000 2003 School Improvement General Obligation Bonds dated October 15, 2003, due in annual installments from \$40,000 to \$45,000, with interest at 3.50 percent, payable semi-annually.	165,000
\$250,000 2005 School Improvement General Obligation Bonds, Series II dated June 1, 2005, due in annual installments from \$20,000 to \$30,000, with interest ranging from 4.00 to 4.25 percent, payable semi-annually.	<u>230,000</u>
	<u>\$ 3,750,000</u>

Resolution Bonds

\$115,577 1998 Durant Resolution Bonds dated November 24, 1998, due in annual installments from \$5,859 to \$27,306, with interest of 3.602147 percent, payable annually. The annual debt service payments related to these bonds is paid through an annual appropriation from the State of Michigan.	<u>\$ 68,244</u>
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Severance Pay - In recognition of services to the District, a severance payment is made to eligible employees according to their respective employment contracts.

Under GASB Statement No. 16 requirements, the District has elected to implement the "vesting" method of calculating the compensated absences liability. The amounts accumulated for all employees currently vested are calculated along with an amount for other employees who currently are not vested but are probable to vest in future years. The amounts for employees who currently are not vested are calculated taking total unused sick pay amounts at June 30, 2006 for all nonvested employees and multiplying it by a historical termination percentage. This percentage is based on an estimate of the percentage of employees who have terminated employment fully vested in the past five (5) years.

A summary of the calculated amounts of accrued severance pay and related payroll taxes as of June 30, 2006, which has been recorded in the district-wide financial statements, is as follows:

	<u>Vested Employees</u>	<u>Nonvested Employees</u>	<u>Total</u>
Severance pay	\$ 255,029	\$ 46,519	\$ 301,548
Payroll taxes	<u>19,510</u>	<u>3,558</u>	<u>23,068</u>
	<u>\$ 274,539</u>	<u>\$ 50,077</u>	<u>\$ 324,616</u>

Dansville Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE D: LONG-TERM DEBT - CONTINUED

The annual requirement to pay the debt principal and interest outstanding for the Long-Term Debt is as follows:

Year Ending June 30,	<u>Durant Resolution Bonds</u>		<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 5,859	\$ 2,255	\$ 295,000	\$ 165,805
2008	6,140	1,976	300,000	154,088
2009	27,306	10,995	305,000	141,928
2010	6,738	1,378	310,000	129,360
2011	7,059	1,057	265,000	117,310
2012-2016	15,142	1,090	1,315,000	409,378
2017-2021	<u>-</u>	<u>-</u>	<u>960,000</u>	<u>116,400</u>
	<u>\$ 68,244</u>	<u>\$ 18,751</u>	<u>\$ 3,750,000</u>	<u>\$ 1,234,269</u>

The Durant Resolution Bonds referred to above are bonds whose future debt service payments by the District are contingent on an annual State of Michigan appropriation. This is the only revenue source for making the annual debt service payments on these bonds. If the legislature of the State of Michigan fails to appropriate the funds, in any particular year, the District is under no obligation for payment of that year's debt obligation.

NOTE E: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at June 30, 2006 are as follows:

Due to General Fund from:	
Nonmajor governmental funds	<u>\$ 13,421</u>
Due to nonmajor governmental funds from:	
General Fund	<u>\$ 44,402</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

NOTE F: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfers from General Fund to:	
Nonmajor governmental funds	<u>\$ 263,040</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE G: EMPLOYEE RETIREMENT SYSTEM

All of the District's employees, except students, are eligible to participate in the State wide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing, State wide public employee retirement system. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The report for the fiscal year-end September 30, 2005, the last year available, may be obtained by contacting the State of Michigan, Department of Management and Budget.

The payroll for employees covered by the MPERS for the year ended June 30, 2006 was \$4,002,276 of which \$2,715,862 was for members who have elected the MIP option; the District's total payroll was \$4,100,433.

Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. For a limited period ended January 1, 1993, an active Basic Plan member may have enrolled in MIP by repaying the contributions and interest that would have been made had MIP enrollment occurred initially prior to January 1, 1990. Employees first hired on or after January 1, 1990, will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of credited service, or at age sixty while still working with a minimum total of five (5) years of credited service, with credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the member's final average compensation multiplied by the total number of years of credited service.

Employees who did not elect the MIP option fall under the MPERS Basic Plan and may retire after attaining age sixty with ten (10) years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working with at least fifteen (15) but fewer than thirty years of credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five (5) years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPERS also provides death and disability benefits and health and medical, dental, vision, and hearing insurance coverage. Benefits are established by State statute.

For the period of July 1, 2005 to September 30, 2005, the District was required by State statute to contribute 14.87% of covered compensation for all wages to the Plan. For the period of October 1, 2005 to June 30, 2006 the District is required by State statute to contribute 16.34% of covered compensation for all wages to the Plan. The total amount contributed to the Plan for the year ended June 30, 2006, and the previous two (2) years is as follows:

<u>June 30,</u>	<u>MIP</u> <u>Contributions</u>	<u>District</u> <u>Contributions</u>	<u>Total</u> <u>Contributions</u>
2006	\$ 104,244	\$ 641,244	\$ 745,488
2005	100,384	570,090	670,474
2004	92,956	505,640	598,596

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE G: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

The following represents contributions as a percentage of the applicable covered payroll for the current and preceding two (2) years:

<u>June 30,</u>	<u>MIP</u> <u>Contributions</u>	<u>District</u> <u>Contributions</u>
2006	4.0%	16.0%
2005	4.0	14.5
2004	4.0	13.0

NOTE H: FUND BALANCE RESERVES AND DESIGNATIONS

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use. Designated fund balance indicates that portion of the fund balance which the District has set aside for specific purposes.

The following are the various fund balance reserves as of June 30, 2006:

General Fund	
Reserved for inventories	\$ <u>8,723</u>
Nonmajor governmental funds	
Reserved for inventories	\$ 2,903
Reserved for debt service	<u>158,289</u>
	\$ <u>161,192</u>

The following are the fund balance designations as of June 30, 2006:

General Fund	
Designated for subsequent year's expenditures	\$ <u>147,421</u>
Nonmajor governmental funds	
Designated for subsequent year's expenditures	\$ <u>8,731</u>

NOTE I: RESTRICTED NET ASSETS

Restrictions of net assets shown in the District-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following is the net asset restriction as of June 30, 2006:

Governmental activities	
Restricted for debt service	\$ 120,851
Restricted for sinking fund activities	<u>12,093</u>
	\$ <u>132,944</u>

Dansville Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE J: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Section 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amount appropriated.

In the body of the general purpose financial statements, the District's budgeted expenditures in the General and Special Revenue Funds have been adopted and shown at the functional classification level.

During the year ended June 30, 2006, the District incurred expenditures in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
Supporting services			
Student services	\$ 225,394	\$ 235,288	\$ 9,894
Instructional staff	251,194	270,895	19,701
Other business services	255,390	325,439	70,049
Special Revenue Funds			
Food Service Fund	290,185	307,058	16,873

NOTE K: RISK MANAGEMENT

The District participates in a pool, the MASB-SEG Property and Casualty Pool with other school districts for property, liability, vehicle, in-land marine, crime, and errors and omissions. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The District has not been informed of any special assessments being required.

The District also participates in a pool, the SEG Self-Insured Workers' Disability Compensation Fund, with other school districts for workers' compensation losses. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The pool is organized under Public Act 317 of 1969, as amended. The District has not been informed of any special assessments being required.

NOTE L: SPECIAL EDUCATION UNDERFUNDING SETTLEMENT

Prior to the current year the Durant vs. State of Michigan case was settled and the State was required to reimburse each plaintiff and nonplaintiff District an agreed upon amount for past under funding of special education. Dansville Public Schools, a nonplaintiff District, was awarded \$231,154 in the settlement. The funds are being paid as follows:

- a. One-half is being paid over the next ten (10) years, which began November 15, 1998. The restrictions on use of these funds are detailed within State School Aid Act, Section 11F(6). These funds are recorded within the General Fund as categorical State Aid. At the end of the current year all these funds had been expended.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE L: SPECIAL EDUCATION UNDERFUNDING SETTLEMENT - CONTINUED

- b. One-half is being paid over the next fifteen (15) years, which began May 15, 1999. The District borrowed this portion of the settlement amount through the Michigan Municipal Bond Authority on November 15, 1998. These funds were recorded as bond proceeds in the Capital Projects Fund. The bond proceeds may be used for any purpose specified in Section 1351 (a) of the Revised School Code. The debt service payments for these bonds are to be made through an annual legislative appropriation. If the State of Michigan legislature fails to make the annual appropriation the District is under no obligation for the debt payments for that year. The District has pledged the annual State payments to the Michigan Municipal Bond Authority for payment of debt service.

NOTE M: BOND SINKING FUNDS

The Capital Projects Funds of the District includes the capital projects activities funded by local millage for a bond sinking fund (the Sinking Fund Capital Projects Fund), bond proceeds (Athletic Facility and Athletic Facility #2 Capital Projects Funds) and other miscellaneous local revenues in those applicable funds. For the expenditures recorded within the Capital Projects Sinking Fund, the District has complied with the applicable provisions of Section 1212 (1) of the Revised School Code and the Michigan Department of Treasury Letter No. 01-95.

The various Capital Project Funds of the District include the capital projects activities funded in part by the \$275,000 2003 School Improvement General Obligation Bonds dated October 15, 2003, and the \$250,000 2005 School Improvement General Obligation Bonds dated June 1, 2005 related to the athletic facility. The remaining funding for the activities recorded within the various Capital Project Funds are funded by local revenues from local millage for a bond sinking fund and other local revenue such as interest, general fund transfers, etc. For these projects recorded within the various Capital Project Funds, the District has, based on our testing of a sample of transactions from the inception of these projects, materially complied with the applicable provisions of Sections 1351 (a) and 1212 of the Revised School Code, and the Michigan Department of Treasury Letter 01-95, in the current year and all applicable prior years.

The various Capital Projects Funds include capital project activities funded in part with the above-mentioned bonds issued and sinking fund amounts levied after May 1, 1994. The following is a summary of the revenue and expenditures in the various Capital Projects Funds from the inception of each fund as it relates to these activities through the current fiscal year. These amounts relate to cumulative project-to-date revenues/expenditures through the period ended June 30, 2006.

	<u>Sinking Fund</u>	<u>Athletic Facility</u>	<u>Athletic Facility #2</u>	<u>Total</u>
Revenues	\$ 668,220	\$ 364,232	\$ 250,072	\$ 1,282,524
Expenditures	\$ 656,127	\$ 364,232	\$ 250,067	\$ 1,270,426

Beginning with the year of bond issuance, the District has reported the annual athletic facility related construction activity in the Athletic Facility #2 Capital Projects Fund. The project for which the \$250,000 2005 School Improvement General Obligation Bonds dated June 1, 2005 were issued was considered complete on June 30, 2006 and the cumulative expenditures recognized for the construction period were \$250,067.

NOTE N: SUBSEQUENT EVENT

After the year ended June 30, 2006, the following significant event occurred:

In August 2006, the District received funds from the Michigan Municipal Bond Authority short-term cash flow borrowing program. The loan totaled \$1,000,000 and future anticipated State Aid and other local funds are expected to be sufficient to cover this commitment.

Dansville Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE O: SHORT-TERM NOTES

On August 19, 2005, the School issued a short-term State School Aid Anticipation Note in the amount of \$1,000,000 for the purpose of funding operating expenditures until the 2006 State Aid payments resumed. This short-term note, which had a net outstanding balance of \$1,025,199 (principal and accrued interest expense payable) at June 30, 2006, is reported in the General Fund under the caption short-term notes payable and the applicable accrued interest under the caption accrued interest. The outstanding balance was scheduled to be paid August 18, 2006.

NOTE P: FLEXIBLE BENEFITS PLAN

In September 1996, the District approved by Board action to implement a flexible benefit cafeteria plan established under Section 125 of the Internal Revenue Code. The plan is available to all regular full-time and part-time employees that were provided with insurance benefits on September 1, 1996, and employees hired after that date that are offered insurance benefits by the District. The plan permits eligible employees with a choice between receiving a cash benefit and certain tax-free benefits.

The plan is administered by Dansville Schools.



REQUIRED SUPPLEMENTARY INFORMATION

Dansville Schools

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local sources	\$ 420,413	\$ 452,021	\$ 424,371	\$ (27,650)
State sources	6,193,196	6,246,821	6,293,152	46,331
Federal sources	81,440	202,402	184,906	(17,496)
OTHER FINANCING SOURCES				
County special education allocation	223,082	225,000	255,043	30,043
Payments from other districts	-	8,523	8,523	-0-
TOTAL REVENUES AND OTHER FINANCING SOURCES	6,918,131	7,134,767	7,165,995	31,228
EXPENDITURES				
INSTRUCTION				
Basic programs	3,662,696	3,696,215	3,676,223	19,992
Added needs	686,215	705,884	647,730	58,154
TOTAL INSTRUCTION	4,348,911	4,402,099	4,323,953	78,146
SUPPORTING SERVICES				
Student services	273,443	225,394	235,288	(9,894)
Instructional staff	206,538	251,194	270,895	(19,701)
General administration	307,295	334,306	316,002	18,304
School administration	481,960	452,864	442,917	9,947
Other business services	206,151	255,390	325,439	(70,049)
Operations and maintenance	486,573	551,868	529,218	22,650
Transportation	407,398	470,111	451,451	18,660
Other	113,440	137,679	119,532	18,147
TOTAL SUPPORTING SERVICES	2,482,798	2,678,806	2,690,742	(11,936)
OTHER FINANCING USES				
Transfers to other funds	250,595	285,418	263,040	22,378
TOTAL EXPENDITURES AND OTHER FINANCING USES	7,082,304	7,366,323	7,277,735	88,588
EXCESS OF REVENUES AND OTHER FINANCING SOURCES (UNDER) EXPENDITURES AND OTHER FINANCING USES	(164,173)	(231,556)	(111,740)	119,816
Fund balance, beginning of year	607,913	607,913	607,913	-0-
Fund balance, end of year	\$ 443,740	\$ 376,357	\$ 496,173	\$ 119,816

OTHER SUPPLEMENTARY INFORMATION

Dansville Schools
Nonmajor Governmental Funds
COMBINING BALANCE SHEET
June 30, 2006

	<u>Special Revenue Funds</u>		<u>Debt Service Funds</u>		
	<u>Food Service</u>	<u>Athletics</u>	<u>G.O. Bonds</u>	<u>Athletic Facility</u>	<u>Durant Bonds</u>
ASSETS					
Cash and cash equivalents	\$ 6,411	\$ 2,525	\$ 155,398	\$ 11	\$ -
Due from other governmental units	-	-	8,166	-	-
Due from other funds	23,009	3,182	-	-	-
Inventories	2,903	-	-	-	-
TOTAL ASSETS	\$ 32,323	\$ 5,707	\$ 163,564	\$ 11	\$ -0-
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 3,105	\$ 903	\$ -	\$ -	\$ -
Accrued payroll	12,945	3,760	-	-	-
Due to other funds	-	-	5,286	-	-
TOTAL LIABILITIES	16,050	4,663	5,286	-0-	-0-
FUND BALANCES					
Reserved for					
Inventories	2,903	-	-	-	-
Debt service	-	-	158,278	11	-
Unreserved					
Designated for subsequent year's expenditures	7,687	1,044	-	-	-
Undesignated, reported in Special revenue funds	5,683	-	-	-	-
Capital project funds	-	-	-	-	-0-
TOTAL FUND BALANCES	16,273	1,044	158,278	11	-0-
TOTAL LIABILITIES AND FUND BALANCES	\$ 32,323	\$ 5,707	\$ 163,564	\$ 11	\$ -0-

Capital Project Funds

Sinking Fund	Athletic Facility	Athletic Facility #2	Total
\$ 798	\$ -	\$ 5	\$ 165,148
1,219	-	-	9,385
18,211	-	-	44,402
-	-	-	2,903
<u>\$ 20,228</u>	<u>\$ -0-</u>	<u>\$ 5</u>	<u>\$ 221,838</u>
\$ -	\$ -	\$ -	\$ 4,008
-	-	-	16,705
8,135	-	-	13,421
8,135	-0-	-0-	34,134
-	-	-	2,903
-	-	-	158,289
-	-	-	8,731
-	-	-	5,683
12,093	-0-	5	12,098
12,093	-0-	5	187,704
<u>\$ 20,228</u>	<u>\$ -0-</u>	<u>\$ 5</u>	<u>\$ 221,838</u>

Dansville Schools

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES

Year ended June 30, 2006

	Special Revenue Funds		Debt Service Funds		
	Food Service	Athletics	G.O. Bonds	Athletic Facility	Durant Bonds
REVENUES					
Local sources	\$ 217,182	\$ 44,834	\$ 418,442	\$ 1	\$ -
State sources	16,109	-	-	-	8,116
Federal sources	67,797	-	-	-	-
OTHER FINANCING SOURCES					
Transfers from other funds	-	186,077	-	76,963	-
TOTAL REVENUES AND OTHER FINANCING SOURCES	301,088	230,911	418,442	76,964	8,116
EXPENDITURES					
Current					
Food service	307,058	-	-	-	-
Athletics	-	251,907	-	-	-
Capital outlay	-	-	-	-	-
Debt service					
Principal retirement	-	-	225,000	60,000	5,594
Interest, fiscal and other charges	-	-	161,456	16,961	2,522
TOTAL EXPENDITURES	307,058	251,907	386,456	76,961	8,116
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	(5,970)	(20,996)	31,986	3	-0-
Fund balances, beginning of year	22,243	22,040	126,292	8	-
Fund balances, end of year	\$ 16,273	\$ 1,044	\$ 158,278	\$ 11	\$ -0-

Capital Project Funds

<u>Sinking Fund</u>	<u>Athletic Facility</u>	<u>Athletic Facility #2</u>	<u>Total</u>
\$ 133,397	\$ -	\$ 72	\$ 813,928
-	-	-	24,225
-	-	-	67,797
-	-	-	263,040
133,397	-0-	72	1,168,990
-	-	-	307,058
-	-	-	251,907
185,229	5	234,485	419,719
-	-	-	290,594
-	-	-	180,939
185,229	5	234,485	1,450,217
(51,832)	(5)	(234,413)	(281,227)
63,925	5	234,418	468,931
<u>\$ 12,093</u>	<u>\$ -0-</u>	<u>\$ 5</u>	<u>\$ 187,704</u>

Dansville Schools

Private Purpose Trust Funds

COMBINING STATEMENT OF NET ASSETS

June 30, 2006

	Superintendent's Scholarships and Memorials	Leffler Scholarship	Total
ASSETS			
Cash and cash equivalents	\$ 2,552	\$ 58,433	\$ 60,985
LIABILITIES AND NET ASSETS			
LIABILITIES	\$ -	\$ -	\$ -0-
NET ASSETS			
Held in trust for scholarships	2,552	58,433	60,985
TOTAL LIABILITIES AND NET ASSETS	\$ 2,552	\$ 58,433	\$ 60,985

Dansville Schools

Private Purpose Trust Funds

COMBINING STATEMENT OF CHANGES IN NET ASSETS

Year Ended June 30, 2006

	Superintendent's Scholarships and Memorials	Leffler Scholarship	Total
ADDITIONS			
Investment earnings			
Interest	\$ -	\$ 2,672	\$ 2,672
DEDUCTIONS			
Other supporting services	500	9,000	9,500
CHANGE IN NET ASSETS	(500)	(6,328)	(6,828)
Net assets - beginning of year	3,052	64,761	67,813
Net assets - end of year	<u>\$ 2,552</u>	<u>\$ 58,433</u>	<u>\$ 60,985</u>

OTHER FINANCIAL INFORMATION

Principals

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Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Dansville Schools
Dansville, Michigan

We have audited the accompanying balance sheet and statement of revenues, expenditures and changes in fund balance of the Athletic Facility #2 Capital Projects Fund, which is the fund that reported the activity of the 2005 School Improvement General Obligation Bond activity of Dansville Schools as of and for the 13 month period ended June 30, 2006. These statements are the responsibility of the District's management. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statements were prepared for the purpose of complying with the provisions of the Michigan Revised School Code (Public Act 451 of 1976, as amended), Part 17-Bonds and Notes, Section 380.1351 (a) as described in Note M. The presentation is not intended to be a presentation of the District's total revenues and expenditures.

In our opinion, the statements referred to above presents fairly, in all material respects, the financial position of the Athletic Facility #2 Capital Projects Fund, which is the fund that reported the activity of the 2005 School Improvement General Obligation Bond activity of Dansville Schools as of and for the 13 month period ended June 30, 2006, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 22, 2006, on our consideration of Dansville Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 22, 2006

Dansville Schools

Athletic Facility #2 Capital Projects Fund

2005 School Improvement General Obligation Bonds Activity

BALANCE SHEET

June 30, 2006

ASSETS

Cash and cash equivalents

\$ 5

LIABILITIES AND FUND BALANCE

LIABILITIES

\$ -

FUND BALANCE

Unreserved - undesignated

5

TOTAL LIABILITIES AND FUND BALANCE

\$ 5

Dansville Schools

Athletic Facility #2 Capital Projects Fund

2005 School Improvement General Obligation Bonds Activity

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE

For the 13 Month Period Ended June 30, 2006

REVENUES	
LOCAL SOURCES	
Interest	\$ 72
OTHER FINANCING SOURCES	
Bond proceeds	<u>250,000</u>
TOTAL REVENUES AND OTHER FINANCING SOURCES	250,072
EXPENDITURES	
Capital outlay	<u>250,067</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	5
Fund balance, beginning of period	<u>-</u>
Fund balance, end of period	<u><u>\$ 5</u></u>

Principals

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Education
Dansville Schools
Dansville, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Dansville Schools as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 22, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Dansville Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to administration of the District in a separate letter dated September 22, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Dansville Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the use of the administration and Board of Education of Dansville Schools, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 22, 2006

Principals

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MANAGEMENT LETTER

To the Board of Education
Dansville Schools
Dansville, Michigan

As you know, we have recently completed our audit of the records of Dansville Schools as of and for the year ended June 30, 2006. In connection with the audit, we feel that certain changes in your accounting and administrative procedures would be helpful in improving management's control and the operational efficiency of the accounting and administrative functions. These suggestions are a result of our evaluation of the internal control structure and our discussions with management.

1. The decentralized accounting systems should be reviewed and modified to assure adequate internal controls are in place.

Various activities of the District (i.e., Student Activities, Athletics, etc.) operate accounting systems separately from the Central Business office. Summarized financial information is accumulated on these activities and recorded periodically in the centralized accounting system.

During our analysis and testing of the internal control structure related to these decentralize accounting systems we noted the following area that we feel could be improved:

- a. During our testing of the receipt and disbursement processes for the yearbook activities, it was noted that there was no supporting documentation for receipts or disbursements. It was also noted, that no bank reconciliations were prepared during the year, original bank statements could not be located, and one (1) of three (3) deposits was not recorded. A similar issue was noted and reported in our audit comments last year.

We suggest original bank statements and all supporting documentation related to this activity be retained for audit purposes and bank reconciliations should be prepared on a monthly basis.

2. Budgets should be monitored and amended when necessary.

As noted in the annual financial statements, some of the budgeted activities of the District exceeded the amounts appropriated. The variances noted were in the General and Special Revenue Funds. This issue was noted and reported in our audit comments last year.

The Michigan Public Act 621 of 1978, as amended, provides that the District shall not incur expenditures in excess of the amounts appropriated.

We suggest the District monitor expenditures against the adopted budget on a periodic basis, preferably monthly. Appropriate budget amendments should be made as needed.

3. The District should assure all applicable personnel issues are documented and recorded properly.

During our testing of the payroll process we noted that two (2) of the five (5) employees tested did not have pay rates that were specifically authorized. We also noted that one (1) of the five (5) employees tested was paid a rate that did not agree to the documented pay rate.

We suggest that payroll records be reviewed and that all wage rates be specifically approved by the Board and documented in each individual's personnel file.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the financial statements, and this report does not affect our report on the financial statements dated September 22, 2006.

This report is intended solely for the information and use of the Board of Education and administration of Dansville Schools and is not intended to be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 22, 2006